



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence

# **Makana Local Municipality**

## **Audit Report**

**For the year ended 30 June 2018**

# **Report of the auditor-general to the Eastern Cape Provincial Legislature and Council on Makana Local Municipality**

## **Report on the audit of the financial statements**

### **Qualified opinion**

1. I have audited the financial statements of the Makana Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Makana Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with SA standards of GRAP and the requirements of the MFMA and Dora.

### **Basis for qualified opinion**

#### **Irregular expenditure**

3. I was unable to obtain sufficient appropriate audit evidence regarding the irregular expenditure as disclosed in note 41 to the financial statements, as the disclosure presented in the financial statements for auditing purposes was without accurate and complete underlying accounting records. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments to the irregular expenditure of R227,9 million (2016-17: R183,5 million) as disclosed in note 41 to the financial statements were necessary.

#### **Revenue from exchange transactions**

4. I was unable to obtain sufficient appropriate audit evidence that revenue from exchange transactions had been properly charged and accounted for, for the current and previous year, due to the status of the accounting records. I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment were necessary to revenue from exchange transactions stated at R252,4 million (2017: R264,3 million) in the financial statements.

## **Receivables from exchange transactions**

5. Sufficient appropriate evidence was not available to support receivables from exchange transactions. This was due to a lack of systems and processes in place at the municipality. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions as disclosed at R17,6 million (2016-17: R46,1 million) in the statement of financial position and note 3 to the financial statements, provision for impairment of receivables from exchange transactions of R372 million (2016-17: R287,6 million) as disclosed in note 3, impairment expense of R109,4 million (2016-17: R30,4 million) as disclosed in note 29 and interest on debtors of R19,9 million disclosed in the statement of financial performance.

## **Receivables from non-exchange transactions**

6. Sufficient appropriate evidence was not available to support receivables from non-exchange transactions. This was due to a lack of systems and processes in place at the municipality. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions as disclosed at R17,5 million (2016-17: 25,7 million) in the statement of financial position and note 4 to the financial statements, provision for impairment of receivables from non-exchange transactions of R31,9 million (2017: R25,6 million) as disclosed in note 4 to the financial statements.

## **Payables from exchange transactions**

7. A journal to the value of R15,8 million was processed during the year under review to the payables from non-exchange transaction in the general ledger. This journal was not supported by adequate documentation. As a result, I could not obtain sufficient appropriate evidence to confirm that this journal was correctly processed. I was unable to obtain the required evidence by alternative means. Consequently, I was unable to determine whether any adjustments were required to payables from exchange transactions stated at R191,6 million in the statement of financial position and note 11 in the financial statements.

## **Payables from non-exchange transactions**

8. The municipality did not have adequate systems to maintain records of accounts payables from non-exchange transactions for leave provision. This resulted in the leave provision being understated by R10,2 million. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts recognised as leave provision. I could not confirm the leave provision by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from non-exchange transactions stated at R17,3 million in the financial statements.

## **Value-added tax payable**

9. I was unable to obtain sufficient appropriate audit evidence that value-added tax (VAT) payable for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the VAT payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT payable stated at R36,2 million (2016-17: R17,8 million) in the financial statements.

## **Unauthorised expenditure**

10. I was unable to obtain sufficient appropriate audit evidence regarding the unauthorised expenditure as disclosed in note 39 to the financial statements, as the disclosure was presented in the financial statements for auditing purposes without accurate and complete underlying accounting records. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments to the unauthorised expenditure of R461,4 million (2016-17: R356,6 million) as disclosed in note 39 to the financial statements were necessary.

## **Corresponding figures**

### **Finance costs**

11. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amount for finance costs in the financial statements. As disclosed in note 28 to the financial statements, the restatement was made to rectify a previous year misstatement, but it could not be substantiated by supporting audit evidence. In addition, the restatement was not disclosed as a prior period error in note 47 to the financial statements. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to finance costs corresponding figure stated at R33,4 million in the financial statements.

## **Context for the opinion**

12. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
13. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Material uncertainty relating to going concern**

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.
16. I draw attention to note 52 to the financial statements, which indicates that the municipality is facing a number of financial risks that negatively impact its ability to sustain its current level of operations in the near future, before taking into account government grants. As stated in note 52, these events or conditions, along with the other matters as set forth in note 52, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matters**

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Fruitless and wasteful expenditure**

18. As disclosed in note 40 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R12,2 million (2016-17: R16,9 million), due to interest charged for late payments.

### **Restatement of corresponding figures**

19. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### **Material losses**

20. As disclosed in note 49 to the financial statements, material electricity and water losses of R51,5 million (2016-17: R94,5 million) and R14,8 million (2016-17: R15,6 million) respectively, were incurred, which represent 13% (2016-17: 13%) and 76% of total electricity and water purchased, respectively. Material losses were due to tempering of metres, faulty metres and illegal connections.

### **Other matter**

21. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

22. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the financial statements**

23. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
24. In preparing the financial statements, the accounting officer is responsible for assessing the Makana Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

25. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
26. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
28. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
Basic service delivery and infrastructure development	xx-xx
Community and social cohesion	xx-xx
Local economic development and rural development	xx-xx

29. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
30. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## Basic service delivery and infrastructure development

Reported achievements were not consistent with the planned and reported indicator and target

### Various indicators

31. The reported achievement of the following indicators was not consistent with the planned and reported indicator and target.

Key performance indicator	Planned target	Actual achievement
Commence with refurbishment Waainek bulk water supply electrical and civil works by the third quarter	Commence of construction of electrical and civil works	Two service providers were appointed to commence with refurbishment of Waainek bulk water supply. For electrical work, Zedek Trading was appointed on 9 January 2018 for a period of four months, a practical certificate was issued on 21 June 2018. For civil work, Hlumisa Engineering service was appointed for a period of six months and handover or inaugural meeting was held on 25 April 2018.
Commence with construction of 650 m/0.65 of 3.3 km gravity sewer lines with two pump station in Aicedale by June 2018	Commence 650m/0.65 Km gravity sewer line	WK Constructor to commence with Aicedale sewerage reticulation was appointed on 14 February 2018 and the handover meeting was held on 24 April 2018.
Construction of 8 km road paving with storm water channel and kerbs in Aicedale by June 2018	Complete of 8km Paving by June 2018	Project was not completed, by 30 June 2018 project was 80% complete.
Construction of 3 km road with storm water channel and kerbs in Aicedale by June 2018	Construction of 3km road with stormwater channel and kerbs in Aicedale by June 2018.	Construction of 3km has not been completed, it was 70% complete by the end of June 2018.

### Measures taken to improve performance not corroborated

### Various indicators

32. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance for the indicators listed below:

<b>Key performance Indicator</b>	<b>Target</b>	<b>Reported achievement</b>	<b>Measures</b>
Construction of 8 km road paving with storm water channel and kerbs in Aicedale by June 2018	Complete of 8 km paving by June 2018	Project was not completed, by 30 June 2018 project was 80% complete.	Extension of time was requested by the constructor; however, the request was not done
Construction of 3 km road with storm water channel and kerbs in Aicedale by June 2018	Construction of 3 km road with storm water channel and kerbs in Aicedale by June 2018.	Construction of 3 km has not been completed, it was 70% complete by the end of June 2018.	Weekly meetings with the construction are held to monitor progress
Construction of 500 square meter multi-purpose centre gymnasium by June 2018	Complete the construction of multi-purpose centre gymnasium by June 2018	Construction has been completed – the main structure has been completed and currently busy with external works, i.e. parking base and storm water management.	A new consultant was appointed on 4 July 2017 and handover was done on 20 September 2017 to improve the performance of the constructor.
80% compliance with SANS quality drinking water standard monthly	90% compliance	Results not available	This was due to non-payment of the service provider that conducts the testing. Payment of the service timeously.
80% compliance with SANS quality waste water standard monthly	90% compliance	Results not available	This was due to non-payment of the service provider that conducts the testing. Payment of the service timeously.

**Reported development objectives were not consistent when compared with the planned strategic or development object and changes to the development objective not approved**

**Development objective: to ensure equitable access to housing for communities**

33. The reported development objective included in the annual performance report “To ensure equitable access to housing for communities” was not included in the planning documents and there was no evidence that the change was approved.

**Performance indicator was not well defined and targets were not specific and measurable**

**Indicator: Commence with refurbishment Waainek bulk water supply electrical and civil works by the third quarter**

34. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance and therefore not measurable.

**Reported achievement not supported by sufficient appropriate audit evidence**

**Various indicators**

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable

to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

<b>Performance indicator</b>	<b>Planned target</b>	<b>Reported achievement</b>
Commence with refurbishment Waainek bulk water supply electrical and civil works by the third quarter	Commence with construction of electrical and civil works	Two service providers were appointed to commence with refurbishment of Waainek bulk water supply. For electrical work, Zedek Trading was appointed on 9 January 2018 for a period of four months, a practical certificate was issued on 21 June 2018. For civil work, Hlumisa Engineering service was appointed for a period of six months and handover or inaugural meeting was held on 25 April 2018.
Commence with construction of 650 m/0.65 km gravity sewer lines with two pump stations in Aicedale by June 2018	Commence 650 m/0.65 km gravity sewer line	WK Constructor to commence with Aicedale sewerage reticulation was appointed on 14 February 2018 and the handover meeting was held on 24 April 2018.
Construction of 8 km road paving with storm water channel and kerbs in Aicedale by June 2018	Complete of 8km paving by June 2018	Project was not completed, by 30 June 2018 project was 80% complete.
Construction of 3km road with storm water channel and kerbs in Aicedale by June 2018	Construction of 3 km road with storm water channel and kerbs in Aicedale by June 2018.	Construction of 3 km has not been completed, it was 70% complete by the end of June 2018.
Construction of 500 square metre multi-purpose centre gymnasium by June 2018	Complete the construction of multi-purpose centre gymnasium by June 2018	Construction has been completed – the main structure has been completed and currently busy with external works, i.e. parking base and storm water management.
80% compliance with SANS quality drinking water standard monthly	90% compliance	Results not available
80% compliance with SANS quality waste water standard monthly	90% compliance	Results not available

## Development priority 2 – Community and social cohesion

### Performance indicator not verifiable

#### Indicator: Develop/Review by-law on the control of stray animal

36. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to a lack of technical indicator descriptions and formal standard operating procedures or documented system descriptions. I was unable to validate the existence of systems and processes by alternative means.

### Measures taken to improve performance not corroborated

#### Indicator: Develop/Review by-law on the control of stray animal

37. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

### Reported achievement not supported by sufficient appropriate audit evidence

#### Various Indicators

38. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of two of the seven indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Key Performance Indicator	Annual Target for 2017/18	Actual Performance
Develop/Review by-law on the control of stray animal	Approval of by-law on control of stray animal	By law was not developed
Number of community safety fire and disaster awareness programmes conducted annually	Four Programmes annually – One per quarterly	One programme was held quarterly

## Local economic development and rural development

**Reported achievements were not consistent with the planned and reported indicator and target**

39. The reported achievement of the following indicators is not consistent with the planned indicator and target.

Key performance indicator	Planned target	Actual achievement
Report quarterly indicating whether the municipality is complying with the SCM regulation that 30% of value of tenders are allocated to local SMMEs.	Four quarterly reports on whether the municipality is complying with the regulation that determines that 30% of value of tenders are allocated to local SMMEs by June 2018	Four quarterly reports have been issued
Approved EIA and progress report on the provision of services at Thorn Park by June 2018	Approved EIA and three progress report by June 2018	EIA was approved, the application was submitted to SBDM for assistance

### Measures taken to improve performance not corroborated

**Indicators: approved EIA and progress report on the provision of services at Thorn Park by June 2018**

40. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target "Approved EIA and three progress report by June 2018" as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

### Reported achievement not supported by sufficient appropriate audit evidence

#### Various Indicators

41. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Key performance Indicator	Planned target	Actual achievement
Report quarterly indicating whether the municipality is complying with the SCM regulation that 30% of value of tenders are allocated to local SMMEs.	Four quarterly reports on whether the municipality is complying with the regulation that determines that 30% of value of tenders are allocated to local SMMEs by June 2018	Four quarterly reports have been issued
Number of stands allocated to crafters at the National Arts Festival by June 2018	Three crafters exhibiting at the National Arts Festival by June 2018	Three crafters were supported in 2017-18

## **Other matter**

42. I draw attention to the matter below.

### **Achievement of planned targets**

43. Refer to the annual performance report on pages xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 30 to 41 of this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

44. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

45. The material findings on compliance with specific matters in key legislations are as follows:

### **Strategic planning and performance management**

46. The SDBIP for the year under review did not include monthly revenue projections by source of collection, the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

47. KPIs were not set for the provision of basic water and/or sanitation and/or electricity and/or solid waste removal services as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

### **Annual financial statements**

48. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Consequence management**

49. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

50. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

51. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Expenditure management**

52. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
53. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred as required by section 65(2)(b) of the MFMA.
54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R12,2 million, as disclosed in note 40 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was as a result of interest charged on late payments.
55. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
56. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused as a result of non-cash items that were under budgeted

### **Procurement and contract management**

57. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of the SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
58. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
59. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
60. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee.
61. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

62. A contract was given to a bidder other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
63. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year
64. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year

#### **Liability management**

65. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
66. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA

#### **Revenue management**

67. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
68. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Conditional grants**

69. Performance in respect of programmes funded by the municipal infrastructure grant was not evaluated, as required by section 12(5) of Dora.

## **Other information**

70. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
71. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
72. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
73. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## **Internal control deficiencies**

74. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
  - Leadership did not fulfil its oversight responsibilities with regard to the implementation and monitoring of internal controls and compliance with laws and regulations, especially in the area of supply chain management. Furthermore, non-institution of daily disciplines to staff, which ensures sound financial and performance management and compliance with laws and regulations.
  - Management did not design and implement daily and monthly financial controls in order to ensure the financial statements and annual performance reports are supported by accurate, valid and complete underlying records.
  - The audit committee and internal audit did not effectively discharge their legislative mandate because the municipality did not have an audit committee throughout the year. The contracts for the previous audit committee members ended as at 31 December 2017 and the current members were only appointed two months before year-end. Consequently, the committee did not approve the annual internal audit plan. Furthermore, the internal audit was not provided with the necessary support by management which would enable the effectiveness of the internal audit and audit committee.

## Other reports

75. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
76. The municipality appointed an independent firm to investigate cases of misconduct against a senior manager who allegedly approved a deviation against limits of total remuneration packages payable to managers directly accountable to municipal manager while acting as a municipal manager, irregular awarding of contracts, and irregular payments certified for a project where the value of work certified to be paid had not been completed.

*Auditor - General*

East London

30 November 2018.



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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Makana Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.